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MAY 23 2012

**SECRETARY, BOARD OF
OIL, GAS & MINING**

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**BEFORE THE BOARD OF OIL, GAS & MINING
DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

NOTICE OF AGENCY ACTION FOR AN ORDER REQUIRING MARION ENERGY TO PLUG AND RECLAIM WELLS; OR FORFEIT SURETY BOND AND AUTHORIZE THE DIVISION TO PLUG AND RECLAIM WELLS LOCATED IN TOWNSHIPS 13 AND 14 SOUTH, RANGE 7 EAST, CARBON COUNTY, UTAH; AND AN ORDER REQUIRING MARION ENERGY TO IMMEDIATELY COMPLY WITH THE NOTICE OF VIOLATION FOR THE WELLS LOCATED IN TOWNSHIPS 12, 13, AND 14 SOUTH, RANGES 7 AND 10 EAST, CARBON COUNTY, UTAH.

**ORDER
REGARDING STIPULATION
TO JUDGMENT**

Docket No. 2011-018

Cause No. 250-02

The Utah Board of Oil, Gas, and Mining (Board), pursuant to the Stipulation to Judgment between the Division of Oil, Gas and Mining (Division) and Marion Energy, Limited, (Marion) filed herein and for good cause appearing, enters an Order as follows:

1. Marion is granted until July 12, 2012 to complete all of the testing, well plugging, reclamation work and other operations and other work as set forth in paragraph 4 under "Terms and

Conditions” in the First Addendum to Agreement for Resolution of Amended Notice of Agency Action (Work) to the satisfaction of the Division. The Work entails the following:

- a. Plugging and Abandonment as required of the Utah Fuel #10;
- b. MIT testing and plugging or production of the Utah Fuels # 1 and #3; and
- c. Plugging or bringing into production Utah Fuels #2, #8, a Utah Mineral State #1, and the Oman 2-20.

The obligation to complete the all of the Work listed in Paragraph 1(a)-(c) (above) will not be excused due to the lack of an operational water line, and notwithstanding the status of the waterline the Division will be entitled to entry of judgment if the items listed in paragraphs 4b-d are not fully completed by July 12, 2012. The Division shall inspect the Work and Marion’s operations approximately one week prior to July 12th deadline and shall advise Marion of any deficiencies in required work.

3. In the event Marion completes the Work to the Division’s satisfaction on or before July 12, 2012, this matter shall be dismissed with prejudice and Marion shall resume operations in accordance with the requirements of its permits and the Utah Oil and Gas Conservation Act including compliance with any audit requests submitted to Marion on March 20, 2012 if not previously resolved.

4. If the Division, upon inspection after July 12, 2012 determines that the Work has not been completed by Marion as required, the Division may immediately give notice of this determination to Marion and the Board, and the Board shall immediately without further hearing or notice execute and enter the Findings of Facts, Conclusions of Law, and Order (in the form attached as Exhibit A).

5. The Judgment to be entered provides that upon failure of U.S. Specialty Insurance Co. or Marion to complete plugging and reclamation of the wells: Utah Fuel #1, Utah Fuel #2, Utah Fuel #3, Utah Fuel #8, Utah Fuel #10, Utah Mineral State #1, and Oman 2-20 as detailed in the NOAA and Judgment within 30 days; that the bond in the amount of \$184,180.00 provided as surety by U.S. Specialty Insurance Co. shall forfeit to the Division, and the Division shall be authorized to commence the plugging and reclamation work.

Entered this 23rd day of May, 2012,

THE BOARD OF OIL, GAS AND MINING

by James T. Jensen
James T. Jensen, Board Chair

CERTIFICATE OF DELIVERY

The Undersigned hereby certifies that a true and correct copy of the foregoing ORDER REGARDING STIPULATION TO JUDGMENT was delivered by electronic/first class mail to the following persons at the addresses indicated this 23rd day of May, 2012

Mike Johnson
Counsel for the Board of Oil, Gas and Mining
mikejohnson@utah.gov

Michael Malmquist
Parsons Behle & Latimer
Counsel for Marion Energy Ltd.
201 South Main Street, Suite 1800
Salt Lake City, Utah 84111
mmalmquist@parsonsbehle.com

U.S. Specialty Insurance Company
13403 Northwest Freeway
Houston, Texas 77040

A handwritten signature in black ink, reading "Julie Ann Carter", written over a horizontal line.

Exhibit A

MARK L. SHURTLEFF (4666)
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DEPARTMENT OF NATURAL RESOURCES
STATE OF UTAH**

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The Board of Oil, Gas, and Mining pursuant to the Stipulation to Judgment between the Division of Oil, Gas and Mining and Marion Energy and for good cause appearing and based on the allegations as set forth there in and in the Notice of Agency Action filed in this matter makes the following:

FINDINGS OF FACT

1. Marion is the wholly-owned U.S. subsidiary of Marion Energy, Limited, a publicly traded company on the Australian stock exchange. Marion is in good standing and authorized to conduct business in the State of Utah. It is duly bonded with all appropriate State of Utah and Federal agencies relevant to this cause.
2. Marion is the operator of the Clear Creek Unit (Clear Creek field), a Federal unit established in 1957.
3. Mr. Edward Mike Davis (Davis) entered into a Stipulated Order and Settlement Agreement (Stipulated Order) filed with the Board on July 23, 2002. The Stipulated Order obligated Davis to post additional bonding in a total amount of \$184,180.00, determine the integrity and the potential productivity of certain wells, and to either bring the wells into production or to plug and abandon the wells in compliance with the applicable laws and regulations within five years.
4. The wells subject to the original Stipulated Order are Utah Fuel #1, Utah Fuel #2, Utah Fuel #3, Utah Fuel #4, Utah Fuel #10, Utah Mineral State #1, and Oman 2-20 (subject wells). Each of these wells is located in Townships 13 and 14 South, Range 7 East in Carbon County, Utah.
5. Davis's interests and obligations in the Stipulated Order were assigned to Mid-Power Resources Corporation (Mid-Power) on December 18, 2003.
6. Marion Energy, Inc. (Marion) was approved as the successor operator and on or about May 24, 2006 Marion assumed the responsibilities and liabilities of the prior operators (Davis and Mid-Power) by executing an Assumption Agreement. The 2006 Assumption Agreement also

included the Utah Fuel #8 well located in S19, T13, R7E. That well is covered by the surety bond and is subject to the same to plug and abandon obligations as the wells listed in the original Stipulated Order. .

7. The original deadline for compliance was established as no more than 5 years from the date of the Stipulated Order and that term ended on July 22, 2007. At that time, the Division notified Marion that it was in breach of the Stipulated Order. However, on September 11, 2007, the Division ordered a one year extension. The Division then extended that original extension by another year on May 27, 2009. The deadline extensions passed without Marion's completion of the work.
8. During the entire period of ownership, Marion has promised to provide Mechanical Integrity Testing (MIT) for the wells and to take other actions but has failed to complete all of the MITs or to meet other commitments as detailed in the January 20, 2011 letter from Division Associate Director John Rogers to Keri Clarke of Marion.
9. On October 25, 2010, Marion was advised by letter that the Division intended to file a Notice of Agency Action seeking an Order of the Board to compel plugging and abandonment of the wells and to forfeit the bond unless Marion met its obligations by the end of the year. Again, Marion committed to perform MITs and, as appropriate, plug and abandon the nonproducing wells.
10. On August 23, 2011 the Division issued Marion several Notices of Violation (NOVs) related to the operator's failure to maintain a consistent field presence and perform other environmental responsibilities.

11. On September 9, 2011, Marion advised the Division that it had performed MITs on three wells, but Marion remains in violation of the Stipulated Order to plug the wells or bring them into production.
12. On September 12, 2011 the Division filed its Notice of Agency Action (NOAA) with the Board seeking an order to commence the plugging and abandoning of Marion's subject wells and a forfeiture of the company's reclamation bond held by U.S. Specialty Insurance Company.
13. The NOAA was amended on October 7, 2011 to address the NOV's that were issued to Marion on August 23, 2011.
14. On October 24, 2011 the Division and Marion agreed to a Stipulated Order in which Marion committed to addressing the NOV's in exchange for the Division's continuance of the hearing from October 26, 2011 until December 7, 2011 (December hearing).
15. On November 21, 2011 the parties jointly filed an Agreement for Resolution of Amended Notice of Agency Action (Resolution). The terms of the Resolution put into place several steps that Marion had to complete before the Division would file a dismissal of its NOAA.
16. According to the terms of the Resolution, Marion was required to address the NOV's in exchange for a continuance from the December hearing until the next Board hearing on January 25, 2012 (January hearing).
17. Marion was also required to provide the Division with a complete report by an independent evaluator of the results of its evaluation of the Clear Creek field reserves and a copy of the operator's Prospectus that it was using to pursue additional capital for the field by the January hearing. If Marion successfully completed these tasks, the Division would file for a

continuance until the March 28, 2012 hearing (March hearing). However, failure to meet these requirements entitled the Division to seek a Board Order requiring the plugging of the wells and other relief sought in the NOAA at the January hearing. The Division had the option of granting Marion a 30 day extension for the Prospectus.

18. The Resolution further required Marion to submit to the Division a detailed Plan of Operation for the Clear Creek field for the Division's approval and to adequately address the concerns of the other administrative agencies and local governments regulating the Clear Creek field.
19. The collective requirements of the Resolution were designed to result in a joint Plan of Operation between the parties that would allow them to move forward without the need for addressing the NOAA in time for work to begin in the Clear Creek field by the spring of 2012.
20. Marion successfully addressed the issues detailed in the August NOV's and the issues outlined in preceding paragraphs 17 and 18. As a result, continuances were granted on December 7, 2011 and January 24, 2012 and the operator continued to work towards realizing full capitalization by the March hearing.
21. However, it eventually became apparent that Marion would not have the necessary funding to begin the work required in its Plan of Operation by the March hearing. As a result, the parties drafted and filed a new agreement titled "First Addendum to Agreement for Resolution of Amended Notice of Agency Action" (Amended Resolution) on March 28, 2012.

22. The Amended Resolution continued the hearing on the Amended NOAA until April 25, 2012 (April hearing); required Marion to obtain sufficient funding or to have partnered with an operator who could complete the plan of operations submitted to the Division pursuant to the Resolution by April 24, 2012; and to use that funding or partnership to complete the following by July 12, 2012:

- a. Approval of the design and completion of repairs necessary to bring the injection well water line into operation;
- b. Plugging and Abandonment as required of the Utah Fuel #10;
- c. MIT testing and plugging or production of the Utah Fuels # 1 and #3; and
- d. Plugging or bringing into production Utah Fuels #2, #8, Utah Mineral State #1, and the Oman 2-20.

23. The parties agreed in the Amended Resolution that if Marion had not procured funding or partnership by April 24, 2012 that “the Division’s Request for Agency Action shall be set for hearing on the Merits of the Requests at the May 23, 2012 Board hearing (May hearing).” Alternatively, if Marion failed to complete the terms listed in paragraph 4 of the Amended Resolution (paragraph 22(b)-(d) above) by July 12th, the Division was entitled to a hearing before the Board on its Request without further notice. Successful completion of those projects would have resulted in a dismissal of the NOAA according to the terms of the Amended Resolution.

24. In May of 2012 Marion, through its attorney, informed the Division that it was engaged in a diligence period with a potential partner, but would be unable to comply with the May hearing deadline as established in the Amended Resolution and therefore was seeking

another extension. The parties agreed that the Division will allow Marion until July 12, 2012 to complete the plugging and abandonment work as defined in paragraph 4 under the Terms and Conditions of the Amended Resolution (stated above in paragraph 22(b)-(d)). The obligation to complete the all of the work listed in Paragraphs 4b-d will not be excused due to the lack of an operational water line, and notwithstanding the status of the waterline the Division will be entitled to entry of judgment if the items listed in paragraphs 4b-d are not fully completed by July 12, 2012. If the work is not completed by July 12th, Marion agreed to the entry of a stipulated order that would order forfeiture of the operator's bond subject to allowing Marion or the surety 30 days from July 12, 2012, to complete the plugging and abandonment work themselves.

25. The Stipulation to Judgment setting forth the terms of this agreement was approved by the Board by an Order dated May 23, 2012.

CONCLUSIONS OF LAW

26. Due and regular notice of the time, place and purpose of the hearing was properly given to all parties whose legally protected interests are affected by the Request in the form and manner as required by law and the rules and regulations of the Board and Division.
27. The Board has jurisdiction over the matters covered by the Request and all interested parties therein, and has the power and authority to render the order herein set forth pursuant to Utah Code Ann. § 40-6-5.

Pursuant to Utah Admin. Code Rules R641 and Utah Code Ann. § 63G-4-204 to 208, the Board has considered and decided this matter as a formal adjudication. This Order is based exclusively on

evidence of record in the adjudicative proceeding or on facts officially noted or stipulated, and constitutes the signed written order stating the Board's decision and the reasons for the decision, all as required by the Administrative Procedures Act, Utah Code Ann. § 63G-4-208 and Utah Administrative Code Rule R641-109.

ORDER

Based upon the Request, stipulated testimony and evidence submitted, and the findings of fact and conclusions of law stated above, the Board hereby orders:

1. Marion has thirty days from the entry of this order to either put into production or to plug and abandon and properly reclaim the well sites at the following wells in the Clear Creek field: Utah Fuel #1, Utah Fuel #2, Utah Fuel #3, Utah Fuel #8, Utah Fuel #10, Utah Mineral State #1, and Oman 2-20.
2. If at the expiration of 30 days from the date of entry of this order Marion has not completed to the Division's satisfaction the plugging and abandoning of all of the above-referenced wells that are not by then in production, the reclamation surety in the amount of \$184,180.00 currently held by U.S. Specialty Insurance Co. on Marion's behalf will be forfeited to the Division, who will assume the outstanding reclamation work.
3. The Division is further authorized to seek any additional civil penalties against Marion to enforce this order and further complete reclamation of the Clear Creek field as necessary.
4. Notice re: Right to Seek Judicial Review by the Utah Supreme Court or to Request Board Reconsideration: As required by Utah Code Ann. § 63G-4-208(e) - (g), the Board hereby

notifies all parties in interest that they have the right to seek judicial review of this final Board Order in this formal adjudication by filing a timely appeal with the Utah Supreme Court within 30 days after the date that this Order issued. Utah Code Ann. §§ 63G-4-401(3)(a) and 403. As an alternative to seeking immediate judicial review, and not as a prerequisite to seeking judicial review, the Board also hereby notifies parties that they may elect to request that the Board reconsider this Order, which constitutes a final agency action of the Board. Utah Code Ann. § 63G-4-302, entitled, “Agency Review - Reconsideration,” states:

(1)(a) Within 20 days after the date that an order is issued for which review by the agency or by a superior agency under Section 63G-4-301 is unavailable, and if the order would otherwise constitute final agency action, any party may file a written request for reconsideration with the agency, stating the specific grounds upon which relief is requested.

(b) Unless otherwise provided by statute, the filing of the request is not a prerequisite for seeking judicial review of the order.

(2) The request for reconsideration shall be filed with the agency and one copy shall be sent by mail to each party by the person making the request.

(3)(a) The agency head, or a person designated for that purpose, shall issue a written order granting the request or denying the request.

(b) If the agency head or the person designated for that purpose does not issue an order within 20 days after the filing of the request, the request for reconsideration shall be considered to be denied.

Id. The Board also hereby notifies the parties that Utah Admin. Code Rule R641-110-100, which is part of a group of Board rules entitled, “Rehearing and Modification of Existing Orders,” states:

Any person affected by a final order or decision of the Board may file a petition for rehearing. Unless otherwise provided, a petition for rehearing must be filed no later than the 10th day of the month following the date of signing of the final order or decision for which the rehearing is sought. A copy of such petition will be served on each other party to the proceeding no later than the 15th day of the month.

Id. See Utah Admin. Code Rule R641-110-200 for the required contents of a petition for Rehearing. If there is any conflict between the deadline in Utah Code Ann. § 63G-4-302 and the deadline in Utah Admin. Code Rule R641-110-100 for moving to rehear this matter, the Board hereby rules that the later of the two deadlines shall be available to any party moving to rehear this matter. If the Board later denies a timely petition for rehearing, the party may still seek judicial review of the Order by perfecting a timely appeal with the Utah Supreme Court within 30 days thereafter.

5. The Board retains continuing jurisdiction over all the parties and over the subject matter of this cause, except to the extent said jurisdiction may be divested by the filing of a timely appeal to seek judicial review of this order by the Utah Supreme Court.

DATED this _____ day of July, 2012.

**STATE OF UTAH
BOARD OF OIL, GAS AND MINING**

By: _____
James Jensen
Chairman

CERTIFICATE OF SERVICE

I hereby certify that I caused a true and correct copy of the foregoing FINDINGS OF FACT, CONCLUSION OF LAW, AND ORDER, for Docket No.2011-018, Cause No. 250-02 to be mailed with postage prepaid to the address shown and emailed, this ____ day of July 2012, to the following:

By hand delivery to:

Mike Johnson
Attorney for the Board of Oil, Gas and Mining
1594 West North Temple
Salt Lake City, Utah 84116
mikejohnson@utah.gov

By mailing first class to:

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